BOSTON UNIVERSITY

College of Business Administration

THESIS

Causes of Business Failures in the U. S. from 1938 through 1947

by

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(A. B. University of Massachusetts 1947)

Submitted in partial fulfillment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

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CHAPTER I

I. INTRODUCTION

A. THE PROBLEM

This is a study of the causes of business failures in the United States during the ten year period, 1938 through 1947. The report reveals a complete account of these causes which was determined from an analysis of the numbers, types, and trends of industrial and commercial discontinuances occurring in these years as well as from a study of the business conditions that existed at the time. Also, plausible explanations are given for the peculiar behavior of the business cycle in this period.

It is noteworthy that in the United States the small business man is recognized as the bulwark of the capitalistic system. Because of this the vast majority of failed concerns, approximately 90%, are small enterprises employing relatively little capital and are given moderate or no credit rating. About 87% of all commercial failures employ $5,000 or less capital in their businesses. Efforts to reduce failures and losses must evolve from a careful study and analysis of the small business. It is also significant that about three-quarters of all business changes relate to retailers. Therefore in the discussion of the causes of failures in this paper, major emphasis is of necessity placed on small concerns, particularly those

engaged in retailing.

Seasonal swings are so great in the failure records that any large increase must be examined in the light of the usual seasonal pattern, so that any change due to season may be distinguished from that arising from other forces. An adjusted insolvency index is used in this report to account for seasonal variation. Also employed is the unadjusted insolvency index which corrects failures for the number of working days and relates them to the number of firms in business.[1]

The information presented in this report was primarily secured from a detailed analysis of the monthly issues of "Dun's Review" from 1938 to 1947.

B. IMPORTANCE OF THE PROBLEM

This ten year period examined contains the two extremes of the business cycle, the contraction period and the boom period, besides the two intermediate phases, the recession and the expansion. This study begins in the recession phase and continues through the contraction, expansion, and boom periods.

It is a particularly dynamic period because the trend of the business cycle, and as a result the trend of failures, never levels off; it is constantly moving, either upward or downward. Consequently each year we have a different situation with new causes of failures. Nearly all

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[1] Dun's Review, Dun and Bradstreet, Inc., March 1938, p. 20.

of the generally known causes of business and commercial failures, as well as the new causes peculiar to World War II, played important parts in this report.

From this study and others similar to it there may be brought about effective methods for reducing the number of failures. The danger signals and the putfalls to be avoided are disclosed and a knowledge of them will be most beneficial to creditors, debtors, and prospective business venturers.

C. REVIEW OF THE WORK ALREADY DONE BY OTHERS

The only information that is similar to this work is a pamphlet that was published in 1932.[2] That report consists primarily of a critical analysis of the causes of bankruptcy and the determination of the relative importance of these various causes.

The information presented in that report was secured from a detailed analysis of 570 commercial bankruptcies. The only cases included in this report originated and were settled in the bankruptcy court. In each case creditors suffered a loss on claims.

The study covers the twelve year period, 1920 to 1931. It discusses commercial failures in general, nature

[2] Sadd, V. and Williams, R.T., Causes of Commercial Bankruptcies, No. 69, in Domestic Commerce Series, 68-83, U. S. Government Printing Office, Washington, 1932.

and characteristics of failures, general underlying causes, consequences of these failures and suggested remedies. There follows a discussion of each of the ten major causes of failures which are supplemented by tables and charts. These tables disclose the causes of failures in the owners' and in the creditors' opinion and lists these causes from the most important to the least important.

The last part of the report includes a great deal of statistical material pertaining to such matters as, distribution of 521 bankrupt commercial establishments according to amount of capital invested at date of organization, source and amount of capital invested, sales and credit losses during year prior to failure, commercial experience of bankrupts prior to the ownership of their business, school education of commercial bankrupts, sex of commercial bankrupts, citizenship of commercial bankrupts, and number of dependents of commercial bankrupts.

D. METHOD OF APPROACH

In order to present as clear an analysis as possible, the problem has been broken down into ten separate phases, each year constituting one phase. Each of the ten years in turn was sub-divided into two parts, "analysis of failures" and "causes of failures." The "analysis of failures" is mainly a statistical picture of the failures, while the

"causes of failures" lists and explains the reasons for these failures. The analyses of failures are based upon factual data derived from "Dun's Review." On the other hand, the causes of business failure are the writer's own opinions. He came to these conclusions after having carefully digested all the available written material on the subject. More specifically, the material read by the author is listed in the "bibliography" section of this thesis.

An exhaustive study of the twelve months in each year was made, gathering information concerning business births and deaths, trends of business, and causes of business failures. As a result of this type of monthly examination it was possible to weave the data into reports covering each of the ten years. A comparison was made of each year to the previous one in a few of the more vital departments such as, the increase or decrease in the number of failures and the changes in the number of failures in the different size groups. Tables have been prepared for each year pertaining to the number of failures in each of the five main industries, the size of failures, the amount of current liabilities, the total amount of liabilities, and the adjusted and unadjusted indexes of failure. Finally, the material presented in each year has been summarized into an overall picture of the ten year period.

CHAPTER II

I. WHAT IS A BUSINESS FAILURE?

A. DEFINITION

In view of the fact that material published by Dun and Bradstreet, Inc. was used almost exclusively in compiling the data for this report, it seemed advisable to give the definition of a business failure that Dun and Bradstreet followed in determining its figures.

The problem of defining a business death is an extremely difficult one because it is confused by the process of reincarnation. An obvious illustration in the incorporation of a partnership. The partnership has disappeared from the scene and a new concern comes into being. From a credit point of view, a new status has been made. On the other hand, from the point of view of the flow of goods, or of employment, or of service to customers, the change might be merely one of legal form.[1]

This problem may be carried one step further. Suppose that one individual proprietor sells his business to another individual owner. There may be no discontinuing of the service given, no change in the type of operation. Nevertheless, the ownership has undeniably changed. To

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[1] Dun's Review, Dun and Bradstreet, Inc., March 1938, p. 13.

make such a distinction possible Dun and Bradstreet segregated as far as practicable those deaths which did not involve a change in the dominant owners.[2]

A business failure, according to Dun and Bradstreet occurs

> . . . when a commercial or industrial enterprise is involved in a court proceeding or in a voluntary action which is likely to end in loss to creditors. Specifically, the Dun and Bradstreet record of failures includes discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosure, etc.; voluntary withdrawals from business with known loss to creditors; also enterprises involved in court action, such as receivership, and since June, 1934, reorganization, or arrangement, which may or may not lead to discontinuance; as well as businesses making voluntary compormises with creditors out of court.
>
> The liabilities reported are primarily current indebtedness, especially since the elimination in 1933 of certain types of business tending to have heavy deferred obligations. For the purpose of the failure record current liabilities are defined as including not only all accounts and notes payable, but also all obligations, whether in secured form or not, known to be held by banks, officers, affiliated companies, supplying companies, or the government.
>
> 1933 Revision-In 1933, failures of all real estate, insurance, holding, and financial companies, and of such concerns as steamship lines, travel agencies, amusement places, etc., were eliminated from the record because of incomplete coverage in those fields, and in order to make the data more comparable with the types of concerns listed in the Dun and Bradstreet Reference Book. This change resulted in the lowering of the 1933 total by 448 failures with liabilities of $45,310,000.[3]

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[2] Ibid.

[3] Comparative Failure Trends: 1915-23, 1938-47, Dun and Bradstreet, Inc., 1946.

Important legislation which affected the reporting of failures was passed in August 1938. The Chandler Act authorized the complete revision of the National Bankruptcy Act for the first time since it was passed in 1898. The result was that the classification of corporate reorganizations, which had been set up as a separate part of the failure records, could no longer be continued as a unit. Consequently, applications for corporate reorganizations became an integral part of the failure record.[4]

> 1939 Revision - Prior to 1939 the failure record did not include all voluntary discontinuances with loss to creditors or all small concerns forced out of business by attachments, executions, foreclosures, etc., with insufficient assets to cover all claims. Efforts to obtain complete coverage resulted in addition of 3,360 failures with liabilities of $14,316,000 to the 1939 record.[5]

B. DESCRIPTION[6]

It is a common understanding that failure embraces receivership and bankruptcy or some other form of legal assistance. But this actually represents the final stage of failure.

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[4] Dun's Review, Dun and Bradstreet, Inc., February, 1939, p. 36.

[5] Comparative Failure Trends: 1915-23, 1938-47, Dun & Bradstreet, Inc., 1946.

[6] Starkweather, L.P., Why Business Failures? - No. 1, Credit and Financial Management, National Association of Credit Men, Philadelphia, Penn., May 1941, p. 20.

Economic or financial failure may have existed for a long time, finally culminating in legal failure or insolvency. The popular idea of failure too often confines itself solely to the legal aspects of the problem.

In order to comprehend intelligently the failure problem it is necessary to extend the conception of failure to include the economic and financial phases. Consequently, any complete description of business failure must cover the problem in its three distinct stages:

1. Economic Failure
2. Financial Failure
3. Legal Failure or Insolvency.

Economic Failure

Economic failure does not require the suspension of business activities nor does it suggest that losses to creditors will be involved; neither does it mean the inability to meet debt payments at maturity or that capital be impaired. It regards a corporation or business enterprise as a failure if its activities fail to satisfy an economic demand, or when it may be definitely determined that profits offer inadequate reward for the business risks assumed.

Financial Failure

A financial failure represents a circumstance in which losses are the rule of the day and working capital becomes impaired. A business concern unable to show profitable

operations as well as a sound working capital position may be regarded as a financial failure.

A financial failure in its later stages is evidenced by a large deficit in working capital. Such a company, however, may be solvent in terms of legal technicalities and any condition of financial embarrassment or inadequate earning power may be only temporary in character. However, unless the underlying failure tendencies, operating first in the form of economic failure and later in the form of financial failure, are definitely corrected, the concern must of necessity proceed to the third stage, namely, that of legal failure or insolvency.

Legal Failure

A legal failure is bankruptcy which is defined under the Federal Bankruptcy Act as a state of insolvency

> . . . when the aggregate of the property . . . at a fair valuation is not sufficient in amount to pay debts.[7]

This legal concept of failure assumes that no firm has failed until it has been forced into a legal settlement of its affairs. It is obvious, however, that a concern might have been an economic and financial failure for many years while still remaining legally solvent. Nevertheless, a dis-

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[7] See Federal Bankruptcy Act.

tinction of this sort is not feasible because of the possibility of a variety of interpretations. There are no established standards for a definite, clear-cut segregation of failures into the economic and financial stages. The legal failure, on the other hand, is universally understood and approved, and has explicit guides for its determination. Therefore, the most practicable solution, and the one used in this report, is to consider a business a failure only if it conforms to the definition of a legal failure.

CHAPTER III

I. CAUSES OF BUSINESS FAILURES

A. TYPES OF CAUSES

There are various causes which interact and cumulate to force a bankruptcy. It rarely happens that a single cause precipitates bankruptcy or liquidation. There are, in nearly all cases of a failed business, several causes for each case.

These causes of business failures are divided into two parts; underlying or fundamental causes and occasion or immediate causes. Fundamental causes are those real causes which are present year after year, and which are basically responsible for eventually leading to the discontinuance of an enterprise. The immediate causes, such as business depressions, are usually the "occasion" rather than the fundamental "cause" of business failures. While business depressions may not be disregarded in a study of the bankruptcy and failure problem, many other factors are of far greater importance. The underlying causes of business failure so impair the strength of a concern that it is unable to meet the adjustments demanded during a business depression. Neglect on the part of the individual, as well as neglect and lack of foresight upon the part of management, represents the fundamental cause of subsequent failure. The strain of a general depression in business merely reveals underlying

failure tendencies and maladjustments in the human, as well as the corporate body. This strain, while exposing the underlying weaknesses, is not in itself responsible for financial embarrassment, receivership with reorganization and reconstruction, or on the other hand, hopeless bankruptcy with "death" and liquidation.[1]

A discussion of causes of business failures necessarily includes both types of causes. However, the general underlying causes, if listed in the text, would be the same for each year. They are, therefore, detailed in this chapter to obviate repeating them. On the other hand, because of the very nature of immediate causes, they are peculiar to the failures in each particular year. Consequently, only these causes are presented in the main body of this thesis as they, unlike the underlying causes, are subject to change due to shifting economic conditions.

B. GENERAL UNDERLYING CAUSES

The following are the general underlying or fundamental causes of business failures in the order of their importance:[2]

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[1] Starkweather, L.P., Why Businesses Fail? Credit and Financial Management, National Association of Credit Men, Philadelphia, Penn., May 1941, pp. 8-11.

[2] Sadd, V. and Williams, R.T., Causes of Commercial Bankruptcies, No. 69, in Domestic Commerce Series, 68-83, U.S. Government Printing Office, Washington, 1932.

1. Inefficient Management

The lack of efficient management is a cause of failure in the vast majority of unsuccessful enterprises. This inefficiency is brought about by improper accounting records, insufficient scholastic training and lack of diversified ability.

2. Insufficient Capital

The real cause is the lack of ability to manage effectively the capital available for use. It is generally true that most concerns fail because of the incompetent manner in which the owners or managers use the capital they have, rather than for lack of capital. The average concern usually gets into difficulty on account of granting and accepting too much credit. This cause should properly be termed "abuse of capital" rather than "insufficient capital." It is not the amount of capital available at the inception of the business, but efficiency of management that is important. A large amount of capital only delays the failure if management is inefficient.

3. Business Depression

Every analysis of business failure made in the past has proved that other causes were more fundamental and influential than a business depression. It is probable that the larger proportion of failures result from bad judgment shown at the very beginning of the business.

The greater number of enterprises which are launched and later become bankrupt have no economic justification, and lack the essentials of successful operation. In most cases it could hardly be expected that anything short of a miracle would enable them to avoid failure and a temporary lull in business activities serves only to accelerate the movement toward an inevitable discontinuance.

4. Bad Debt Losses

Failure to appraise ability and character in credit transactions is nearly always fatal. Securing an increased volume of sales by indiscriminate credit granting is oftentimes ruinous, and promiscuous credit extension during times of "easy" money has brought about the undoing of many enterprises.

5. Intensified Competition

Competition determines the fate of industries as well as the firms that survive within an industry. The most efficient and well-operated companies generally survive. Competition serves to eliminate the inefficient and unqualified from business, but unfortunately their places are taken by others equally inefficient and unqualified. Lack of sufficient ability, resources, and opportunity to overcome existing competition is a frequent cause of failure, but in many other cases the

inability of certain established firms to duplicate the progressive activities of new and better qualified competition is a cause of failure.

6. Adverse Domestic and Personal Factors

The inability to overcome bad personal habits is a primary cause of failure. Extravagance, intemperance, indolence, gambling, and other related habits are a few of the difficulties. Illness, medical expense, and wasteful habits of the bankrupt's own family are other sources of bankruptcy.

7. Dishonesty and Fraud

The intention of a dishonest debtor in a fraudulent bankruptcy case is to secure as much merchandise as possible on credit, dispose of it without paying creditors, and then to secure a bankruptcy discharge.

8. Decline in Value of Assets

The decline in value of assets has not been offset by a corresponding reduction in amount of liabilities accrued against the depreciated assets, and businesses without adequate reserves have been forced to extreme measures in order to fulfill creditor obligations.

9. Excessive Overhead Expense

Overhead expenses (rent and salaries are generally the largest items) are not in proportion to the volume of sales. Excessive overhead costs is a good indication

of inefficient management.

10. Inefficient and Dishonest Employees

Unauthorized withdrawal of money or merchandise from a business by the employees has been a contributing or primary cause of failure in many insolvencies.

11. Other Causes

a. Poor location,especially for retailers.

b. Buying too much on credit is often a fault of an untrained merchant, who finds it difficult to resist the high-pressure salesmanship of salesmen, with no interest in the success of a business, but only in his increased commissions.

c. Excessive interest charges on borrowed funds. If interest charges are greater than the average profit for the particular line of trade, failure is certain

d. Unwarranted expansion.

e. In real estate and building, losses from speculation are an important cause of failure.

f. Freedom of enterprise.

g. Business changes and improvements.

CHAPTER IV

I. CLASSIFICATION OF GENERAL UNDERLYING CAUSES OF BUSINESS FAILURES[1]

The underlying causes for business falures given in the previous cahpter were listed but ungrouped. The purpse of this section is to group the major reasons for business failures under three broad classifications. These results were obtained from an examination of more than a hundred commercial crashes and from interviews of men who were familiar with the details of ten times that many failures. According to John A. Murphy, causes of business failures may be classified by:

1. Personal Reasons.
   a. Speculation.
   b. Living beyond means.
   c. A desire to get rich quickly.
   d. Bad habits.
2. Executive Reasons.
   a. Lack of executive capacity.
   b. Bad executive methods.
3. Management Reasons.
   a. Outworn policies.
   b. Improper organization set-ups.

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[1] Murphy, J. A., Why Businesses Fail, Sales Management, Sales Management, Inc., New York, March 1, 1940, pp. 18-20 and March 15, 1940, pp. 27-28.

c. Poor coordination of the operative functions of the business.

d. Interference from outsiders.

e. Outmoded sales management.

f. Insufficient advertising.

g. Failure to keep up with competition.

Of the above classifications, the first applies to small failures but seldom to large ones. The second and third divisions apply to sizable failures, much larger than those resulting from personal reasons.

Personal Reasons

The proprietor of a small business in most cases has insufficient capital and is inexperienced; that is, not thoroughly versed in the fine points of business and finance. The shortcomings usually lead him to speculation in the stock market, speculation in inventories, betting on horses, or simply taking "chances" in his business without having given proper consideration to his actions. It is by these means that the small owner attempts to compensate for his deficiencies in business acument. The result is that he succeeds only in paving the way for the eventual failure of his enterprise.

Thousands of concerns that went under in the early 1930's did so not because the businesses themselves were unprofitable, but because they had been bled to death financing their proprietor's speculations. These men not only withdrew the

profits from their companies but in many instances they also cut into their capital. In addition, they neglected their work, and gave their time, attention, and interest to some elusive "get rich quick" scheme which they were following.

Many small businesses fail because their owners live beyond their means. Owners do not put themselves on a salary that the company can afford to pay. Instead they draw funds for all their personal needs out of the business and before long its capital has been very seriously impaired.

A mistake that is made by many samll business men is in trying to support too many relative; being generous to a fault; carrying too big a load. More businessmen fail because they cannot say "No" to friends, salesmen, and relatives, than because of drinking or playing the horses. Thus personal habits are not so important a factor in commercial failures as are thepersonal characteristics of businessmen.

Executive Reasons

The lack of executive ability is probably responsible for most discontinuances. A good executive has the ability to face facts and to do something about them. Significantly, poor businessmen are seldom capable of doing this. Either they ignore facts or delay acting on them until it is too late. These poor businessmen do not have the ability to

profits from their companies but in many instances they also cut into their capital. In addition, they neglected their work, and gave their time, attention, and interest to some outside "get rich quick" scheme which they were following.

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<u>Executive Capacity</u>

The lack of executive ability is probably responsible for most discontinuance. A good executive has the ability to face facts and to do something about them. Significantly, poor businessmen are seldom capable of doing this. Either they ignore facts or delay acting on them until it is too late. These poor businessmen do not have the ability to

foresee catastrophes and cannot adapt their enterprises to meet them. They do not know the line of business well enough. Executives of a company must know that line thoroughly. The persons who succeed in a line are generally experts at it. Those who fail in a business are often novices in it and lack sufficient knowledge to operate the concern properly.

Another necessary executive qualification is the ability to keep adjusting a business to the constant requirements of change. Today an executive who is not able to readjust his business so that it can keep step with htese evolutionary changes is severely handicapped.

Many large organizations do not have enough executives or executives of the right type, who are properly trained and who have the right experience. Obviously, such a condition of executive inefficiency leads to ultimate discontinuance.

Management Reasons

Delegating authority is an absolutely essential qualification for leadership in business. The head of a firm may get along without it while his firm is of medium size, but he cannot get along without it when the company needs an organization in order to operate.

Nearly all mangement failures have had organization setups where there was a structural relationship between the various factors in these enterprises. The man heading the

enterprise invariably lacks the ability to train assistants and to give them authority. That is one of the most decided weaknesses in businessmen, and probably does more to keep them from growing than any other deficiency they may have. This is the reason why businesses that start big seldom succeed. Chain stores are successful because by reason of slow growth they are able to educate executives for the expansion of the enterprise. The business that starts big does not have the company-trained executives to carry them on.

Another important management reason for business casualties is the failure to keep up with competition. A wise management continually wonders what its competitors are doing, not only that it may be able to keep up with but that it may keep ahead of its competition. Consideration must be given to the competitor's activities in the field of new products, the redesign of old products, new methods of manufacture, and to his advertising and sales-promotional work.

A constant check on the trade papers for the industry, a sales force that contains good listeners as well as good talkers to pick up bits of information from the trade, and a management that cooperates with the trade association are all that is required to keep a company abreast of the competitive picture.

Management must keep in constant touch with the industry

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A constant check on the trade papers for the industry, a sales force that contains good listeners as well as good talkers to pick up bits of information from the trade, and a management that associates with the trade association are all that is required to make a constant survey of the competitive picture.

Management must keep in constant touch with the industry

in order to be cognizant of competitive improvements, and also to receive suggestions for improvements in its own production and sales activities.

Banker control is another influence that accounts for some of the failures. Frequently bankers interfere too much with the management of the business.

In conclusion it may be said that in the final analysis of reasons for business failures, whether they be big or little, it will be found that the lack of executive ability, in one degree or another, on the part of the operating heads, has something to do with most of them.

CHAPTER V

I. BUSINESS FAILURES IN 1938

A. ANALYSIS OF FAILURES

The year 1938, as a whole with respect to failures was similar to 1934 and 1935. The rise in failures in this year was industry-wide and country-wide.

The total number of failures of 12,836 represented a 35% increase over 1937 and was the first appreciable rise in the annual total in five years. It was a departure from a downward trend in evidence, since the peak of 31,822 cases in 1932. The amount of liabilities also increased after several years of decline. Current liabilities likewise rose and these included accounts payable, obligations, secured or not, known to be held by banks, officers, affiliated companies, or the Government. In addition to the $246,000,000 liabilities of this sort, there was in 1938 a total of $89,000,000 in mortgages and funded debt held by the public in companies whose financial difficulties were recorded in the courts in 1938.[1]

The sharp rise in failures in the latter part of 1937 continued into the first three months of 1938, and the new high level was maintained until the closing months of the year. There were slight monthly declines from July to

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1939, pp. 32-36.

October, but not until a big drop occurred in November was there any indication that the end-of-the-year level would be below that at the end of 1937.[2]

With the exception of a drop in May and a rise in June which practically balanced each other, the adjusted index, which is a measurement of business failures adjusted for seasonal variation, had stayed close to 60 since the beginning of the year. This seemed to indicate that 1938 failures had been on a pretty even keel and had reflected little change other than that of seasonal variation.

The total liabilities generally showed a tendency to decline except for sharp increases in March and December. These upturns were due to the increased failures in the large-size group, with liabilities of $25,000 to $100,000, and the very large-size group, with liabilities over $100,000. Otherwise the total amount of liabilities per month hovered around $19,000,000.

During the year the small and medium size failures, with liabilities under $25,000, made up about 90% of the total. However, the higher level of failures this year had been increasingly at the expense of larger companies. In fact the larger the company, the higher the rate of failure.

There had been an increasing proportion of small

[2] *Ibid*.

and medium size failures and a steadily decreasing proportion of large failures. There was some $10,000,000 annually involved in the failure of thousands of small companies with liabilities under $5,000 each.

In the retail and wholesale trade large failures increased, but in manufacturing, construction and commercial service the entire 1938 increase was among small enterprises.

In the year under consideration the business group principally affected was retail trade, particularly furniture and house furnishings, apparel shops, general merchandise stores and automotive products.

The increased failures in manufacturing and the wholesale trade in 1938 was but the continuation of a gradual rise which started in 1937.

The difficulties in the apparel trade were traceable back through the wholesale trade and manufacturing by an 84% irse in failures of clothing wholesalers, and a 45% increase in failures of manufacturers of textile products including clothing. In manufacturing there were also large increases in four other lines; iron and steel products, machinery, chemicals and drugs and forest products. In the important group of food manufacturers, failures dropped 10%.

The majority of the consturction failures were among the sub-contractors such as plumbers, painters and

electricians.

B. CAUSES OF FAILURES

During the first half of 1938, there was a leveling off in industrial and commercial activity. This course of business reflected the conservative attitude of investors and buyers. With buyers marking time, watching for the first indications of stabilization in commodity prices, no incentive for a sharp reversal of trend was offered to industry.

Operations continued to fluctuate idly around 30% of capacity. On the whole there was no prospect of an immediate advance in demand.[3]

Further curtailment of consumer incomes both in rural and industrial areas resulted in a decline in consumer buying and retail prices with a consequent lower dollar volume of trade. Foreign business, which accounted for more than 60% of the total business, took a downturn because of the tension prevailing in Europe.

Probably the main cause of failures in 1938, was the very environment of low business activity, because failures rise in period of business depresssions and decline as business improves. An example of this can be seen in the failure of several large companies which were established before 1900 by the fathers or grandfathers of the

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[3] Dun's Review, Dun and Bradstreet, Inc., March 1938, pp. 18, 19.

present owners. New interests providing funds had in some cases entered the management. The others were still family affairs. Probably until 1929, they had various experiences during the depression which depleted the working capital and then in 1938, they were unable to pay RFC loans, accrued interest and mortgage requirements, or even current accounts.[4]

Most of the firms failing in 1938, were carrying very extensive liabilities which included RFC loans, heavy bank indebtedness and many thousands of dollars to trade creditors.

In September of 1938, business relaxed and displayed greater confidence as the Four-Power Agreement ended the nervous tensions brought about by fears of war. Although business activity improved and recovery proceeded cautiously in the latter half of 1938, there was still a considerable number of failures. The circumstances that accounted for the existing state of affairs were: 1. The war scare and its unsettling effect. 2. Over-optimism engendered by the "Munich Peace." 3. Domestic labor troubles.

Another cause of business failures in 1938, was that companies were going into business with insufficient capital and during a period of business uncertainty and falling

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[4] Dun's Review, Dun and Bradstreet, Inc., April 1938, pp. 36-38.

industrial production. Many of the failing companies had incorporated after 1930, and started with an invested capital of $25,000 and less. These companies had no indebtedness other than trade accounts or loans when they failed, indicating that they had not been able to sustain even small losses through slowly moving goods. In order to stay in business they had been forced to borrow capital; but their loans increased to such an extent that if finally caused their failure.

Firms also became insolvent in 1938, because the turnover in the business population was at an all time high due to depressed business conditions. Every year witnesses the ambitious start of thousands of new enterprises and at the same time the death of thousands of others. Such was the case in 1938, when the number of firms in operation increased. Because of these additions, especially during this period of adverse business activity, there was an increased number of failures.

Other causes of business failures were curtailed operations on small profit margins, competition, and slow receivables. The large construction failures were largely due to speculative real estate and building operations by the contractors engaged in the construction industry. Lastly, the fundamental causes of business failures, previously mentioned, were in operation taking their heavy toll of firms.

TABLE I

INDUSTRIAL AND COMMERCIAL FAILURES IN 1938**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index* Unadjusted	Dun's Insolvency Index* Adjusted#
January	1377	21415	27162	76.2	62.0
February	1149	21028	25501	75.2	65.4
March	1167	40325	80373	64.8	64.2
April	1172	21147	29355	65.1	63.2
May	1123	19139	19831	59.8	59.2
June	1073	15918	16892	64.1	67.5
July	1038	14761	15008	57.2	64.3
August	1015	16382	17252	53.8	63.3
September	866	14341	15183	51.6	61.4
October	977	13219	16960	54.7	59.4
November	984	12302	17281	53.9	51.8
December	875	36528	54736	56.7	56.1
Total	12,836	246,505	335,534	61.1	

* Apparent annual failures per 10,000 enterprises.
# For seasonal variation.
**Series revised from 1933 on to exclude real estate and financial companies.

Source: "Dun's Review" Dun and Bradstreet, Inc. from March of 1938 to Feb. of 1939.

TABLE II

The Failure Record for 1938

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	539	450	460	440	418	926	415	417	360	438	435		11277
$5,000 - $25,000	664	532	518	577	533		506	460	397	455	443		
$25,000 - $100,000	154	134	158	114	137	122	106	109	90	86	94		1397
$100,000 and over	20	33	31	41	35	20	11	29	19	18	12		283

* Number of failures.

Source: "Dun's Review", Dun and Bradstreet, Inc., from March of 1938 to February of 1939.

TABLE III

FAILURES BY DIVISIONS OF INDUSTRY - 1938*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	1377	1149	1167	1172	1123	1073	1038	1015	758	991	984	875	12836
Manufacturing	241	211	241	210	217	198	210	173	133	172	196	175	2428
Wholesale Trade	123	112	125	124	109	104	103	122	84	108	99	88	1289
Retail Trade	895	705	696	748	690	665	629	629	462	627	586	527	7925
Construction	60	55	55	40	60	59	45	57	45	43	55	48	625
Commercial Service	58	50	50	50	47	47	51	34	34	47	48	37	569

* Series revised from 1933 on to exclude real estate and financial companies.

Source: "Dun's Review" from March of 1938 to February of 1939, Dun and Bradstreet, Inc.

CHAPTER VI

I. BUSINESS FAILURES IN 1939

A. ANALYSIS OF FAILURES

The trend of industrial and commercial failures during 1939, was gradually downward, and the year ended with a definitely declining movement.

Following the break in business recovery in the latter part of 1937, failures rose sharply and were on a relatively high level throughout 1938. The 1939 figures indicated about a 50% recovery in the failure record. Whereas the number of failures declined 11% in 1939, the decrease in liabilities amounted to 32%, and the total fell below that of both 1938 and 1937.[1]

The 1939 trend of failures followed the normal seasonal pattern very closely. Not for many years had there been such an absence of factors which disturb the usual month to month course of business defaults. The increased business activity in 1939 did not have a drastic effect upon the failure record. In fact, throughout the year there had been a gradual, though not uninterrupted, downward trend. The general level of failures was below that of a year previous.

The course of the index since the beginning of the year had been smoothly and continuously downward ex-

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1940, p. 39.

cept for a slight rise in April and a sharp rise in October and November. The even course of the adjusted index indicated that no untoward influences had been brought to bear upon the failure record. The insolvency index adjusts for the varying number of working days in the months, and also takes into account the increasing or decreasing number of concerns in business, as determined by the number of names in the Dun and Bradstreet Reference Book. The index is expressed as the apparent annual number of failures in each 10,000 companies in business.

The trend in evidence since 1934, of a slow but steady increase in the proportion of small failures and a corresponding decrease in the proportion of large failures was continued in 1939.

For the first time in nearly two years the number of very small failures in March of 1939, exceeded those in the medium size group. This lasted until August when the medium size failures were once again greater than the small failures. However, the two groups togehter, that is all failures with liabilities under $25,000, continued to constitute nearly 90% of the entire failure record in 1939.

The trend in the five main industry groups was generally downward for the year. Manufacturing failures fluctuated during the twelve months but on the whole took a slight dip. The wholesale trade on the other hand indi-

cated a definite decreasing tendency. The retail trade failures also were reduced considerably. In the last two groups, consturction and commercial service, there was very little change.

In the individual businesses there were increased failures during the year in paper, printing, and publishing, and chemicals and drugs in the manufacturing industry. There were also notable increases in the lumber, building materials, and hardware in the wholesale trade, and in the construction field there was an upturn in failures in general construction. The year 1939 also presented decreases in various businesses such as farm products, foods, groceries, clothing and furnishing, and supply houses in the wholesale trade, and farm supplies and general stores, general merchandise, and apparel in the retail industry.

B. CAUSES OF FAILURES

During the first half of 1939 business activity was in a depressed condition but took on a healthier tone in the second half of theyear. However, this slight recovery was not sufficient to appreciably decrease the number of failures. The unfavorable environment of this period continued to be the dominant factor in the high level of failures as business activity has a direct bearing on business deaths. There is almost no lag between a slowing down of business activity and an increas in failures.

One of the main causes of business failures in 1939, was the conservative attitude of business men toward business risks. Their lack of confidence was evident because of a general hesitancy in placing orders and in expanding output. Commercial and industrial buyers had restricted their purchases to current needs. In industry and trade, emphasis was placed on cautious purchasing policies and on inventory control.

In the first half of 1939, the chief factors that tended to depress business activity and to cause large failures appeared to be non-economic, that is, psychological and political. Repeated threats of an international conflict had created in many business men a state of mind characterized by strain and uncertainty. The domestic situation had been somewhat clouded by the fact that business men were taking a less optimistic view of prospective cooperation between government and business. Other causes of failures in the first six months were the decline in steel orders and the shutdown of the bituminous coal mines pending settlement of the dispute over a new labor contract.

Although business recovered in the second half of 1939 through the settlement of the coal strike, an advance in security prices, a revival of trade activity, new activity in the construction industry and expansion of steel

output, it could not be sustained. This was due to the existence of a weakness in wholeslae commcdity prices and the financial uncertainties resulting from recurrent international crises. These had an unsettling effect on the businessmen"s attitude and persuaded them that progress must be made in a cautious manner. Consequently, business failures decreased in the last six months but not to any great extent.

TABLE IV

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1939**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index* Unadjusted	Dun's Insolvency Index* Adjusted#
January	1567	20790	24860	86.0	69.9
February	1202	13582	13589	78.0	67.8
March	1322	19002	19315	72.6	71.9
April	1331	18579	21837	73.1	71.0
May	1334	18579	20743	70.5	69.8
June	1119	12581	12737	66.5	69.3
July	1153	14999	23634	63.0	70.8
August	1126	12367	13029	61.4	72.2
September	1043	10545	11729	59.0	70.2
October	1234	17464	18119	67.0	72.8
November	1184	13201	14874	72.6	69.8
December	1153	13243	19434	65.0	64.3
Total	14786	182520	209454	69.6	

*Apparent annual failures per 10,000 enterprises.

#For seasonal variation

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review" Dun and Bradstreet, Inc., from March of 1939 to February of 1940.

TABLE V

THE FAILURE RECORD FOR 1939

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	669	582	637	615	614	521	528	471	457	523	469		5622
$5,000 - $25,000	733	501	554	577	585	490	503	560	516	600	614		6873
$25,000 - $100,000	140	107	111	114	112	94	104	76	57	87	85		1146
$100,000 and over	25	12	20	25	23	14	18	19	13	24	16		227

*Number of failures.

Source: "Dun's Review" from March of 1939 to February of 1940, Dun and Bradstreet, Inc.

TABLE VI

FAILURES BY DIVISIONS OF INDUSTRY - 1939*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	1567	1202	1322	1331	1334	1119	1153	1126	1043	1234	1184	1153	14768
Manufacturing	298	234	267	272	263	209	242	210	187	235	263	239	2919
Wholesale Trade	167	109	143	160	152	105	114	117	105	129	125	108	1534
Retail Trade	975	770	792	790	800	687	729	696	652	772	697	690	9050
Construction	61	47	56	52	71	52	40	52	51	55	50	59	646
Commercial Service	66	42	64	57	48	66	28	51	48	43	49	57	619

* Series revised to include voluntary discontinuance with loss to creditors.

Source: "Dun's Review" Dun and Bradstreet, Inc., from March of 1939 to February of 1940.

CHAPTER VII

I. BUSINESS FAILURES IN 1940

A. ANALYSIS OF FAILURES

The industrial and commercial failures dropped for the second successive year. The reported failures during 1940, totaled 13,619, as compared with 14,768, in 1939. This was a decline of 8 per cent following an 11 per cent decrease between 1938 and 1939, but in spite of the downward trend the 1940 level did not reach the previous low established in 1937.

There was a sharp rise in failures in the early part of the year accompanied by falling business activity. After the upturn in business in May, the momentum of rising failures carried them upward for three more months. However, by September continually improving business caused failures to decline sharply and continuously through the remainder of the year.[1]

The total current liabilities and the total liabilities declined slightly from 1939, but were the lowest since 1919. A comparison of the indexes, unadjusted and adjusted, revealed that the figures for each month in 1940 were lower than the figures for corresponding months in 1939. The trend of failures during the year, as indicated by the insolvency index, departed widely from the normal seasonal pattern.

The size distribution of the 1940 failures was al-

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1941, pp. 40,41.

most identical with that of the 1939 failures. Of the total in 1940, 90.6% consisted of failures with liabilities under $25,000; 7.8% was made up of conerns with debts between $25,000 and $100,000; and 1.6% were very large failures of $100,000 and over. Among the overwhelming number of the falures under $25,000 however, there was a tendency away from the medium ones with debts of between $5,000 and $25,000 toward the small ones with debts of less than $5,000. This was substantiated by the fact that the only percentage increase in failures from 1939 to 1940 was in the small failures under $5,000, an increase of 6%. The medium size failures showed a 21% decrease, while the large and very large ones, respectively, demonstrated 7% and 2% decreases. The actual number of very large failures with debts in excess of $100,000 had decreased steadily year by year since the peak in 1934. In 1940 manufacturing concerns were responsible for about 63% of the very large failures.

In the year under consideration the decrease in failures extended through four of the five main industry groups, construction being the exception. Commercial service failures and those in the retail trade groups were down less, however, than either manufacturing or wholesale trade failures. Failures in wholesale trade dropped 14% and in manufacturing 10%. Commercial service and retail

trade failure declines amounted to only 4 and 8 per cent, respectively.[2]

Decreases in eight out of the twelve manufacturing groups ranged from 6 percent in paper printing, and publishing to 31 per cent in stone, clay, and glass products. There were increases only in forest products, chemicals and drugs, fuels, and transportation equipment. In the last three months of the year, when failures customarily rise, fewer manufacturing failures were evident in most lines. Apparently the manufacturers, who are the first to receive substantial benefits from any new prosperity, were already being favorably affected by the new demands stimulated by increased Government orders for defense purposes.

Wholesale trade failures resisted throughout the first seven months of the year any seasonal downward pull. Normal rises in September and October were followed by a drop in November. Failures in all lines except fuels, however, totalled less than in 1939.

Retail trade failures were seasonally high during the summer months. Increased consumer buying in the fall, however, forestalled the usual increase in the number of retail trade failures toward the end of the year. Annual failures in individual retail lines were down from 1 to 20 per cent from comparable 1939 figures. Food failures went

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[2] Ibid., p. 42.

down 6 per cent, apparel shops 16 per cent, restaurants and drugs only slightly off. Lumber, building materials, and hardware failures remained about the same. In commercial service increased failures were reported among cleaners and dyers and in trucking lines.

B. CAUSES OF FAILURES

From August 1940, to the end of the year, business activity was sharply on the upswing because of an increase in actual Government commitments for defense, an increase in consumer income and in consumer buying, and a rise in industrial production and in trade activity. However, until August of 1940 business conditions were lethargic due to an apathetic buying interest, low industrial production, and employment difficulties. This unhealthy environment was once again the cause of many business failures.

War psychology ruled the buying policies of business men until late in the year when the domestic program of defense had begun to offset unfavorable foreign developments. The war in Holland and Belgium had an adverse affect on business, and caused the exports of U. S. merchandise to suffer a sharp contraction in April. In addition, there was a sharp drop in stock prices because of nervous trading due to the war. These psychological and political factors were responsible for a large number of failures in 1940 as they were in 1939.

Many firms were in existence in 1940, in spite of the fact that business was not good during most of the year. As in all periods of contraction competition was very keen for the less-than-normal demands of buyers. This resulted in the inefficient firms being forced out of operation.

In addition to the immediate causes listed above, there were at work the fundamental causes, making their presence felt as always.

TABLE VII

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1940**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index*	
				Unadjusted	Adjusted#
January	1237	15279	15805	67.1	54.6
February	1042	13472	13600	66.7	58.0
March	1197	11681	12133	62.6	61.4
April	1291	16247	17114	70.1	67.4
May	1238	13068	13437	66.9	65.6
June	1114	13734	25101	62.5	64.4
July	1175	16213	17756	63.0	70.8
August	1128	12997	13223	60.6	71.3
September	976	11397	15473	54.3	64.6
October	1111	12715	14226	61.7	67.1
November	1024	16572	17987	61.9	59.5
December	1086	13309	14480	58.0	57.4
Total	13619	166684	190342	63.0	"

* Apparent annual failures per 10,000 enterprises.

For seasonal variation.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review", Dun and Bradstreet, Inc., from March of 1940 to February of 1941.

TABLE VIII

THE FAILURE RECORD FOR 1940

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	532	519	659	663	617	536	568	544	514	609	540		6891
$5,000 - $25,000	595	402	434	498	495	457	500	493	372	393	403		5442
$25,000 - $100,000	94	105	94	102	110	100	82	79	74	85	62		1067
$100,000 and over	16	16	10	28	16	21	25	12	16	24	19		219

*Number of failures

Source: "Dun's Review" Dun and Bradstreet, from March of 1940 to February of 1941.

TABLE IX

FAILURES BY DIVISIONS OF INDUSTRY - 1940*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	1237	1042	1197	1291	1238	1114	1175	1128	976	1111	1024	1086	13619
Manufacturing	223	204	216	261	263	226	216	209	187	214	202	200	2621
Wholesale Trade	112	102	123	114	120	113	113	102	108	115	89	102	1316
Retail Trade	789	622	740	766	739	666	728	719	574	667	640	679	8329
Construction	69	66	63	78	70	61	65	49	58	71	53	57	760
Commercial Service	44	48	55	72	46	48	50	49	49	44	40	48	593

* Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review," Dun and Bradstreet, Inc., From March of 1940 to February of 1941

CHAPTER VIII

I. BUSINESS FAILURES IN 1941

A. ANALYSIS OF FAILURES

The industrial and commercial failures totalled 11,848 in 1941, a decline of 1,771 failures, or 13%, from the 13,619 reported in 1940. Thus during the three years, 1939, 1940 and 1941, there was a gradual falling off in the annual number of failures, with the rate of decline increasing in 1941 and 1940.

The month-to-month trend was downward during the greater part of the year. Continued and substantial decreases near the end of the year carried the insolvency index to a point not only under the 1940 lower limit, but even below the previous low in January 1937.[1]

The prevailing tendency among failures in 1941, was one of decreasing numbers among large concerns, while, except for seasonal influences, the very small under-financed units passed out of the picture at about the usual rate. Consequently the number of failures had not dropped so low in relation to the past record, as had liabilities which were about 22% below those in 1940.

A glance at the failure record revealed a definite, well-marked decline of 27% in the number of failures among

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1942, p. 31.

concerns with liabilities of over $100,000. A decline of almost equal proportions, approximately 24%, took place among failures with liabilities between $5,000 and $100,000. Among the small failures, however, only a 2% decline from 1940 was noted.

The most appreciable changes from 1940 levels were in manufacturing and wholesaling trade, where failures dropped about 20% in each group. In comparison with these declines, retail trade failures were down only 11% from their 1940 total, and construction and commercial service failures only 7% and 9%, respectively.

Textile mills, with a drop in production of 61%, headed the list of industries in which failures were very much lower in 1941 than in 1940. Failures among producers of textile mill products, paper products, and iron and steel products showed an unusually sharp drop in the last quarter of 1941.[2]

Retail trade failures were affected favorably by a combination of increased demand and rising prices. Failures among automobile accessory stores were cut nearly in half. Men's and women's wearing apparel failures dropped about 33%. Hardware and paint stores, furniture stores, and food stores and restaurants, which at the end of the first half of the year had experienced more failures than in the first half of 1940, ended the year with decreases,

as the result of rapidly falling failures in the last quarter. Two lines, automobiles and building materials, ended the year with more failures than in 1940.[3]

B. CAUSES OF FAILURES

In this period of defense preparations there was present an influence that operated toward the closing of small businesses, either in hand trades or other lines, because of the drafting into the service of the owners. Not all of these discontinuances were failures, but there was a tendency toward stepping out from under an embarrassing financial load through bankruptcy so that the slate would be clean upon later return to business.

There was an increase in the number of failures because of closing due to the inability to secure either material for manufacture or finished goods for distribution. The shortage was particularly felt in the non-defense companies as the needs for defense increased.

Another cause of failure was the change-over from consumer goods to defense schedules because of its attendant difficulties. Some firms which could not convert from civilian to war products also found their way into the failure record.

The number of firms in operation in 1941, decreased midway through the year, but then increased sharply in

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[3] Ibid.

the latter part of 1941. This increase in the number of firms in operation far exceeded the total warranted by the amount of business recovery. The usual result of too many companies competing for insufficient business came about, forcing the incompetent firms to quit.

Lastly, priorities and rationing had begun to assume increased importance and were partly responsible for some of the failures.

TABLE X

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1941**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index*	
				Unadjusted	Adjusted#
January	1124	11888	12535	62.2	51.8
February	1129	13483	14323	71.3	62.0
March	1211	13444	14754	62.5	61.3
April	1149	13827	15068	61.5	58.6
May	1119	10065	10215	59.9	58.7
June	970	9449	10183	53.9	55.0
July	908	13422	14097	50.4	56.0
August	954	11134	11949	49.0	57.0
September	735	9393	10904	40.7	48.4
October	809	7333	7772	44.8	48.2
November	842	9197	10514	48.4	46.1
December	898	13469	16131	49.5	49.5
Total	11848	136104	148445	54.4	

* Apparent annual failures per 10,000 enterprises.

For seasonal variation.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: Dun's Review from March of 1941 to February of 1942.

TABLE XI

THE FAILURE RECORD FOR 1941

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	640	620	645	685	656	589	519	542	416	494	467		6754
$5,000 - $25,000	395	413	447	385	386	321	298	327	247	260	308		4116
$25,000 - $100,000	69	76	103	66	72	49	75	73	57	49	58		815
$100,000 and over	20	20	16	13	5	11	16	12	15	6	9		163

* Number of failures.

Source: "Dun's Review," Dun and Bradstreet, Inc. from March of 1941 to February 1942.

TABLE XII

FAILURES BY DIVISIONS OF INDUSTRY - 1941*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U. S.	1124	1129	1211	1149	1119	970	908	954	735	809	842	898	11848
Mining and Mfg.	161	182	188	191	181	166	165	166	123	138	167	146	1974
Wholesale Trade	95	104	105	108	100	98	74	81	67	69	57	87	1045
Retail Trade	771	719	800	745	735	619	570	585	460	516	529	540	7589
Construction	54	58	60	70	63	51	59	76	39	57	51	63	701
Commercial Service	43	66	58	35	40	36	40	46	46	29	38	62	539

* Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review" from March of 1941 to February of 1942.

CHAPTER IX

I. BUSINESS FAILURES IN 1942

A. ANALYSIS OF FAILURES

The year 1942 witnessed a total of 9,405 business failures, a decline of 21% from the number in 1941, and the lowest annual total since 1919. Failures followed a generally declining trend during the entire year. In the last six months however, the drop was unusually sharp, and monthly failures reached the lowest level on record in relation to the total number of concerns in business.[1]

The current liabilities of $100,763,000 and the total liabilities of $109,102,000 represented in each case a drop of 26% over the previous year. The current liabilities was the smallest amount of potential credit losses through business failures since 1919. There had been a continuous decline in the annual totals of current liabilities since the billion dollar peak in 1932.

The unadjusted and adjusted indexes averaged about ten points lower in 1942 than in 1941. Each month of the year saw a sharp drop over the corresponding month of the previous year.

Small failures with liabilities under $5,000 declined steadily throughout the year ending with a total that

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1943, p. 23.

was 25% less than the figure for 1941. The other groups declined also but not as consistently as the group already mentioned. The medium, large, and very large size classes depicted diminutions of 14, 19 and 25%, respectively. Once again the failures under $25,000 accounted for over 90% of the total number of failures.

In the three main industry groups, manufacturing, retail trade, and wholesale trade, failures were about 25% lower in 1942 than in 1941. In commercial service there was only a slight decline of 7%, while in construction an increase of about 1% was noted.

Retial failures showed little decline until the latter part of the year. In the spring and summer months concerns went out of business in increasing numbers in such lines as building materials, hardware, furniture and house furnishings, drugs, and automotive products. In the last few months of the year however, a decided falling off in failures in these businesses was seen, together with a continuing decline in food and general merchandise stores and apparel shops.[2]

Manufacturing failures declined sharply early in the year, rose during the mid-summer months, and then dropped to low levels in the last third of the year. Trends in the most important manufacturing lines were very

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[2] Ibid.

inconsistent from month to month. Food failures and textile failures generally followed the above-mentioned trend, but failures of paper and printing concerns, high in the early part of the year and low in the summer months, showed signs of rising again at the end of the year. Furniture manufacturing faioures also turned up toward the close of the year. Iron, steel, and machinery failures declined steadily after the early months.[3]

The shift in emphasis to immediate war production as against future facilities brought additional curtailment to the war construction program, increasing total construction suspensions by December 1942 to around $2,000,000,000. With three-fifths of the $28,000,000,000 war consturction program completed by the end of October, building tapered off but still remained at a high level.

B. CAUSES OF FAILURES

Among the reasons for a smaller number of failures in war time were:

1. Increased business activity and purchasing power which kept in business concerns which might normally have gone out.

2. A rapidly declining business birth rate which kept out of the picture many companies which otherwise

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[3] Ibid.

would have gone into business and quickly closed. The early years in business are the most hazardous for new enterprises and it is probably not a mere coincidence that an accelerated drop in failures follows a sharp decline in the business birth rate.

3. The great adaptability of manufacturers to change over to war work.

Although business deaths declined very noticeably, there were still 9,405 concerns that found their way into the failure record. Many small businesses failed because large operators were swelling their inventories while small operators either stayed as they were or decreased. Small manufacturers could not secure war oders and as a result were unable to readily obtain material.

Many were forced to relinquish their business.

Manufacturing lines which produced articles mainly used by civilians - food, paper, printing, and publishing, leather and leather products, and stone, clay, and glass - exhibited the rising deaths expected when markets began to shrink rapidly. A growing number of non-essential industries were shut down because of the halt to civilian production.

Sales of durable goods started to fall off in 1942 partly because of rationing and the depletion of stocks, partly because consumers had covered their needs so liberally.

Consequently, lines such as the motor vehicle trade, electrical appliance trade, and civilian metal products, suffered casualties.

While rising prices presented the semblance of prosperity, the spread between retail and wholesale prices was rapidly dwindling in 1942 and gross profit margins of retailers were tending to decrease.

Other causes of business failure besides the underlying causes that are invaraibly present exerting their power and influence, were:

1. A labor shortage due to the loss of men to higher paid jobs in war industries and to military service.

2. The inability to obtain materials, equipment, or parts.

3. The inability of some concerns to convert their plant facilities to war uses.

4. The inability to cope with the problems of adjusting production methods to the new conditions of supply.

5. Rationing controls in the consumer market.

6. The setting of price ceilings over goods.

7: The absorption of much of the business of civilian trucking concerns by Government orders, transportation, etc.

TABLE XIII

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1942**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index* Unadjusted	Dun's Insolvency Index* Adjusted#
January	962	9916	10463	53.5	45.3
February	916	9631	10086	57.6	50.1
March	1084	12011	13241	54.0	52.9
April	938	9282	10175	52.3	49.3
May	955	9839	10351	49.7	48.7
June	804	9906	12189	45.3	46.2
July	764	8548	9489	43.2	48.0
August	698	6781	7021	36.7	42.2
September	556	5473	5598	31.7	37.7
October	673	7181	7881	38.4	41.3
November	585	5245	5345	36.4	34.7
December	506	6950	7382	29.1	29.1
Total	9405	100763	109102	43.8	"

* Apparent annual failures per 10,000 Enterprises.

For seasonal variations.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1942 to February of 1943.

TABLE XIV

THE FAILURE RECORD FOR 1942

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	548	493	541	515	544	436	377	361	323	359	319	281	5097
$5,000 - $25,000	342	355	404	359	332	286	311	276	189	257	228	143	3525
$25,000 - $100,000	58	59	85	56	65	65	66	54	39	49	34	30	660
$100,000 and over	14	9	18	8	14	17	10	4	5	8	4	12	123

* Number of failures.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1942 to February of 1943.

TABLE XV

FAILURES BY DIVISION OF INDUSTRY - 1942*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	962	916	1048	938	955	804	764	698	556	673	585	506	9405
Mining & Mfg.	159	141	188	146	134	135	120	119	77	102	98	86	1505
Wholesale Trade	81	70	85	65	69	68	64	61	43	65	45	44	760
Retail Trade	604	589	650	624	647	486	465	405	355	405	352	307	5889
Construction	65	57	77	65	63	67	63	66	54	61	63	47	748
Commercial Service	53	59	48	38	42	48	52	47	27	40	27	22	503

* Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review" Dun and Bradstreet, Inc., from March 1942 to February 1943.

CHAPTER X

I. BUSINESS FAILURES IN 1943

A. ANALYSIS OF FAILURES

Business failures continued to decline in 1943 and the year ended with an insolvency rate which was the lowest on record. During this year there was an average of only one failure for every three in 1942, which represented an actual decrease of 66% - an unusually sharp drop. The current liabilities and the total liabilities for the year showed a 55% and 46% downturn, respectively, as compared with the figures of 1942.

The drop in failures of small and medium size concerns was due to a large extent to the unprecedented falling off in the number of business openings since the beginning of the war. Although an examination of the failure record revealed a decrease of 68% for small businesses and a decrease of 64% for medium enterprises, these two groups with liabilities under $25,000 still composed 90% of the total number of reported failures. Active business in both production and distribution was reflected in the drop in large failures, a matter of approximately 57%.

In comparison to 1942, the five main industry groups registered decreases in every individual line on record. The main groups, manufacturing, wholesaling, retailing, construction, and commercial service, evidenced

declines of from 50% to 70%. The sharpest drop occurred in retail trade where failures were off 70%, compared with 66% in wholesale trade and 62% in manufacturing. Construction and commercial service failures were reduced about 50%.

With a great proportion of manufactured articles going toward defense purposes retail and wholesale unit volume had fallen off. Retail unit sales volume in 1943 was about 1 per cent above 1942 but 7 per cent below 1941, an all-time high. However, the rise in prices, the more selective buying habits, and the increased production of expensive goods had been influential in lifting retail sales volume in dollars to record levels in 1943, about 9 per cent above 1942.

Wholesale sales had advanced in 1943, although at a slower rate than in the prior year. Durable goods business had fallen off considerably with the exception of jewelry lines. The increase in the non-durable goods sales compensated for the loss in durable goods sales.[1]

Production for 1943, was about 20 per cent above 1942 and about 48 per cent above 1941. The increase was less than in each of the previous two years. Output of war goods constituted about two-thirds of all manufacturing production in 1943. Civilian goods output was down 9 per

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1944, p. 18.

cent from 1942.

Despite the steel and coal stoppages in June and December and delays in completing plant equipment, a record amount of steel was produced, about 3 per cent above 1942. Iron ore consumption in 1943 gained approximately 3 per cent over the record 1942 level. The durable goods which suffered setbacks were: glass containers, cement, lumber, and furniture. In the non-durable goods, textiles, paper products, and dairy products registered modest declines when compared with the 1942 output.[2]

Thus, from the above description of business conditions in 1943, it was not difficult to understand why failures took such a sudden downturn. Business had improved consistently through 1941 and 1942 and had moved at an even more rapid pace in this year.

The year 1943 was unique in that it became the only year in this entire ten-year period in which failures in all individual lines decreased from the previous year.

B. CAUSES OF FAILURES

The sharp drop in failures in 1943 was due to increased purchasing power which accompanied the accelerated industrial activity of wartimes and the rapidly falling

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[2] Ibid., p. 15.

business birth rate. This decrease in business openings was the result of mobilization of manpower, priorities, shortages, and other conditions which discouraged the starting of new businesses.[3]

In this period, uncertainty seemed greatest among owners of filling stations. About one-third of them had some doubts about staying in business because of gas rationing and because there were fewer cars on the road. Even automobile dealers were not this gloomy.

Lumber and building material dealers were unfavorably affected by the price ceiling because retail prices of lumber and building material were too low in March 1942, the base period used for setting price ceilings. They also found that their expenses and costs of doing business were increasing. In addition, the volume of their business was low. This was due to their inability to get some items after the ceilings were imposed which diverted much lumber business from retailers to the mills and the wholesalers.

Price ceilings also had a detrimental affect on the business of hardware dealers. Merchandise at wholesale took a rise shortly before ceilings went into operation and retail prices had not been raised correspondingly. In addition, there was a growing scarcity of hardware items.

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[3] Dun's Review, Dun and Bradstreet, Inc., July 1943, p. 21.

Some of the difficulties retailers faced in 1943 were:

1. Narrowed profit margins.

2. Shortages of goods.

3. Declining volume in some lines because a great proportion of the manufactured articles were going toward war purposes; boom volumes in other lines.

4. Rising expense trends.

5. Unfavorable price ceilings, particularly to food retailers who had been subjected to a margin squeeze more than most other retailers.

6. The burden of filling out Government forms, especially with the introduction of rationing.

Wholesalers in turn suffered because of the inability to obtain merchandise for wholesale distribution in normal prewar quantities. The reasons for this condition were:

1. Cessation of the production of automobiles on February 1, 1942, and the conversion of practically all plants producing electrical parts and supplies, and plumbing and heating supplies, to the manufacture of critical war items.

2. Government restrictions on the importation of tea and coffee.

3. Rationing of gasoline.

4. Initial reductions in the production of paper of all grades.

5. Unavailability of silk and only limited quan-

tities of synthetic yarns obtainable for the manufacture of hosiery.

6. Limitations placed on lumber by the War Production Board restricting non-essential construction and renovations.[4]

Other causes of failure in 1943 were:

1. The continued falling off of the durable goods industry.

2. The lack of consideration given to small business. Large buyers had the preference.

3. The withholding of merchandise for black market prices by mills and distributors.

4. The widespread evasion, avoidance, and violation of ceilings by competitors, and the consequent disadvantage placed on concerns which tried to observe the ceilings.

5. Inefficiency of new labor.

6. Problem of absenteeism.

7. Difficulty of hiring additional male or female labor.

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[4] Dun's Review, Dun and Bradstreet, Inc., November 1943, pp. 12, 14.

TABLE XVI

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1943**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index*	
				Unadjusted	Adjusted#
January	485	5515	5793	26.6	23.5
February	422	4163	4213	25.6	22.3
March	410	7282	7858	23.2	22.3
April	362	3523	3718	21.4	20.0
May	281	2550	2625	16.1	15.5
June	265	6076	15321	15.9	16.2
July	203	3595	3695	12.2	13.0
August	227	2205	2905	13.2	15.2
September	124	1488	1538	7.5	8.9
October	169	3685	4030	9.9	10.6
November	155	2402	2402	9.9	9.7
December	145	2055	5115	8.9	9.0
Total	3221	45399	59213	15.9	"

* Apparent annual failures per 10,000 enterprises.

For seasonal variation.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1943 to February of 1944.

TABLE XVII

THE FAILURE RECORD FOR 1943

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	233	222	223	191	146	122	99	108	60	74	74	62	1614
$5,000 - $25,000	177	166	149	144	119	107	79	91	49	69	59	63	1272
$25,000 - $100,000	42	31	27	23	13	23	19	26	12	20	17	16	269
$100,000 and over	6	3	11	4	3	13	6	2	3	6	5	4	66

* Number of failures.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1943 to February of 1944.

TABLE XVIII

FAILURES BY DIVISIONS OF INDUSTRY - 1943*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	458	422	410	362	281	265	203	227	124	169	155	145	3221
Mining & Mfg.	79	67	79	61	48	39	43	33	26	33	31	28	567
Wholesale Trade	31	34	35	24	23	15	19	28	9	12	11	16	257
Retail Trade	267	255	232	195	156	147	98	128	64	81	78	68	1761
Construction	53	38	41	54	35	33	23	31	18	27	44	20	399
Commercial Service	28	28	23	28	19	31	20	15	7	16	9	13	237

Source: "Dun's Review," from March of 1943 to February of 1944, Dun and Bradstreet, Inc.

* Series revised to include voluntary discontinuances with loss to creditors.

CHAPTER XI

I. BUSINESS FAILURES IN 1944

A. ANALYSIS OF FAILURES

Business failures maintained their very rapid decline, this time registering a drop of 62 per cent over the previous year. The total number of 1,222 failures was to that time the lowest figure to be recorded. The number of failures was less than one-eighth and the liabilities less than one-fifth those of 1918, the low year of World War I.

Only one failure occurred in 1944 for every three in 1943. Dun's Insolvency Index showed an average of 6 concerns failing in 1944 per 10,000 business enterprises, as compared with 16 in 1943 and 44 in 1942. This insolvency rate for 1944 established a new all time low, bettering the mark set in 1943 by nearly 60 Per cent.

The tendency manifested in 1943 for small failures to drop off more rapidly than large failures became even more pronounced in 1944; due to this, the aggregate current liabilities in 1944 amounted to almost 70 per cent last year's total, although there were only 38 per cent as many failures.

Apparently failures were levelling off - the decline from 1943 to 1944 was less sharp than from 1942 to 1943. The downtrend continued in all industry, trade, and size groups, but it slackened considerably in manufacturing failures and in failures involving liabilities of $25,000 or more. This was substantiated by the records which

showed that samll failures with liabilities under $25,000 were down 65 per cent, while large failures with liabilities over $25,000 were reduced only 34 per cent.

In 1944 there was an indication of a trend upward in over-all industrial operations. The expanding schedules in war output resulted generally in a slowing up or cessation of further reconversion, especially in critical labor shortage areas or in programs where there was any interference with military operations.

The pace of productive activity was clearly reflected in the gradual climb in manufacturers' shipments since 1941. An underlying factor in the high volume of shipments was the constant large output of war goods as well as the seasonal gains in a few non-durable goods industries. Another significant factor was the sharp increase in new orders to over three times the 1939 average. Again the bulk of new business was in durable goods manufacturing which was devoted to war purposes.[1]

Although business continued to be good in 1944, there were signs that business failures would soon terminate their downward movement. These indications originated from the proposals that government war orders and contracts should start being cut; it was felt that the war would

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[1] Dun's Review, Dun and Bradstreet, Inc., January 1945, pp. 42, 43

soon end. The slow down in war orders had an immediate and adverse affect on manufacturers of producers' goods as they are always first to feel the results of a decrease in demand. It caused the number of their failures to suddenly increase at the same time that failures in other industries continued declining. This was proven by the failure record which revealed that machinery and transportation equipment, producers' goods industries listed in the manufacturing groups, were the only two individual lines which exceeded the failures in 1943. Hence, the developments in industry in 1944 made it possible to predict the probably trend of business failures in the next few years.

B. CAUSES OF FAILURES

The number of firms in operation began declining from the peak in 1941 until they reached their lowest point in the early part of 1944. Toward the end of the year the curve once again was climbing just as sharply as it had fallen in the two previous years. The small number of failures in 1944 reflected the cumulative effect of these two years of diminishing numbers of business openings.

Although still at high levels, there were mildly downward tendencies in 1944 in business activity, industrial output, employment, and factory payrolls. This was evident

by the increased failures in 1944 over 1943 in the machinery and transportation equipment lines, by the large number of failures in the "$100,000 or more" class, and by the fact that the manufacturing group accounted for 30% of the total number of failures.

As the possibility of the end of the war in the near future became stronger, war contracts were beginning to be cancelled in 1944 to preclude the possibility of accumulating excessive stockpiles of war goods. This led to a sudden curtailment of orders in the producers' goods industries which caused the number of failures in that type of business to increase.

While the pressure for some defense items had increased, the needs for other war goods had fallen off without any significant counter-balancing increase in civilian output. This diminution of productivity was enough to create difficulties for many concerns and for some, actual failure.

Retailers continued to be perplexed by problems of narrowed profit margins, shortages of goods, declining volume in some lines, excessive inventories in other lines, and all the other difficulties of wartime. The chief reason for discontinuance among the food merchants was the difficulty of getting merchandise - the well-known shortages of sugar, coffee, butter, meats, and canned goods.

There was also difficulty in regard to blanks to fill out, reports to make - the general Government burden on doing business.

In this discussion of the causes of business failures in 1944, it must be borne in mind that the various fundamental causes of failure, previously listed in this report, were just as pernicious this year as they are in every year.

TABLE XIX

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1944**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index* Unadjusted	Dun's Insolvency Index* Adjusted#
January	120	1708	1708	—	—
February	132	3108	6132	—	—
March	96	1460	1460	—	—
April	131	3757	3757	—	—
May	148	2697	2697	9.3	8.9
June	110	2090	2090	7.2	7.3
July	91	3559	3559	5.7	6.1
August	77	1054	1054	4.8	5.5
September	75	4365	4365	4.9	5.8
October	74	3973	3973	4.8	5.2
November	75	3008	3008	5.0	4.9
December	93	1804	1804	6.0	6.1
Total	1222	35607	35607	6.5	"

* Apparent annual failures per 10,000 enterprizes.

\# For seasonal variation.

**Series revised to include voluntary discontinuances, with loss to creditors.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1944 to February of 1945.

TABLE XX

THE FAILURE RECORD FOR 1944

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	50	45	33	53	64	45	33	28	26	22	24	29	452
$5,000 - $25,000	53	66	47	60	60	46	37	38	30	32	36	44	549
$25,000 - $100,000	14	15	13	14	20	17	16	10	13	14	10	19	175
$100,000 and over	3	6	3	4	4	2	5	1	6	6	5	1	46

* Number of failures.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1944 to February of 1945.

TABLE XXI

FAILURES BY DIVISIONS OF INDUSTRY - 1944*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	120	132	96	131	148	110	91	77	75	74	75	93	1222
Mining & Mfg.	31	32	28	37	34	31	23	28	24	30	24	36	352
Wholesale Trade	13	10	5	9	11	7	8	5	5	4	5	11	94
Retail Trade	50	49	43	56	63	51	41	32	26	25	26	36	493
Construction	13	19	11	20	26	12	9	9	12	11	12	4	164
Commercial Service	13	22	9	9	14	9	10	3	8	4	8	6	199

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1944 to February of 1945.

*Series revised to include voluntary discontinuances with loss to creditors.

CHAPTER XII

I. BUSINESS FAILURES IN 1945

A. ANALYSIS OF FAILURES[1]

The 42 business failures in December was the lowest number in any month on record. It brought to a close the lowest year in more than 50 years of failure history. The 810 concerns that failed in 1945 marked the first time annual failures had fallen below 1,000. This total was only one-eighth the number occurring in the lowest year of World War I. The rate of decline, however, seemed to have slowed down since failures in 1945 were down only 34 per cent whereas between 1942 and 1943 and 1943 and 1944 the decline amounted to some 60 per cent.

Dun's Insolvency Index indicated that less than three concerns failed per 10,000 business enterprises. A record low was thus established. Theaverage failure rate for 1945 was 4.2, compared with 6.5 in 1944 and 16.4 in 1943.

The number of failures was one-third lowee than a year ago, but the aggregate volume of liabilities of the failures came within 4 per cent of equalling the 1944 total. This resulted from a rise in the number of exceptionally large failures involving losses of more than $100,000. However, firms that failed in all other size

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1946, p. 30.

groups dropped to a record low; the rate of decline varied inversely with the size.

All trade and industry groups had fewer concerns failing than in 1944, but the rate of decline had lessened as it did in the size groups. The smallest decrease, 20 per cent, was in manufacturing, while the biggest drop, around 40 per cent, occurred in retail trade and construction. Three-fourths of the year's 810 deaths were concentrated in retailing and manufacturing. In terms of individual businesses, only four had asmany as 50 failures during the year - machinery manufacturing, food retailing, eating and drinking places, and building subcontracting. The largest number took place in eating and drinking places with failures at 90. But even in this line, failures were at a new low in 1945. In fact, in nearly all businesses, failures were at the lowest level in failure history. Contrary trends appeared in only a few lines. There were slight increases this year in failures in mining, leather manufacturing, iron and steel manufacturing, miscellaneous public services, and business and repair services.

More than half the aggregate losses for 1945 were involved in the failure of manufacturing concerns. In five industrial lines, losses were higher than $1,000,000 - mining, lumber, iron and steel, machinery, and transportation equipment.

B. CAUSES OF FAILURES

The number of firms in operation increased very sharply in 1945. This movement was probably responsible for many of the 613 small failures with liabilities under $25,000, because the preponderance of new businesses come under the small size group. However, the total number of failures actually did decrease because business was flourishing, especially in the retail trade. Other firms that went out were either marginal or in their first year of operation. In the latter case the owners were usually insufficiently qualified to have entered the business.

Manufacturing failures accounted for over one-third of the total number of failures. This was evident upon an examination of the index of industrial production which went steadily downward throughout the year. It dropped from 234 in January to 164 in December of 1945. Industrial production fell off because of declines in munitions output. Also, with the arrival of V-E and V-J Days, cancellations and cuts in war orders proceeded at a faster pace. In addition, with three-fifths of the country's production going to war purposes, obviously the level of production activity depended upon both the reduction in the programs for production of war goods and upon how fast reconversion to production of civilian goods took place. However, raw material and manpower shortages were

still prevalent in many major industries and these impeded reconversion activities. A coal shortage and labor strikes in October, November and December of 1945 also held up the output of goods.

The construction industry continued to be hampered by the lack of lumber which was a big factor in the accumulation of the 92 reported failures in that field.

TABLE XXII

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1945**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index* Unadjusted	Dun's Insolvency Index* Adjusted#
January	80	5883	9533	5.1	4.6
February	66	1557	1651	4.8	4.1
March	86	3880	3880	5.0	4.7
April	90	980	980	5.7	5.2
May	72	2208	2208	4.4	4.2
June	61	3198	3398	3.7	3.8
July	72	3659	3659	4.5	4.9
August	56	1166	1166	3.2	3.6
September	64	1658	1658	4.2	5.1
October	62	3114	3114	3.7	4.0
November	60	1268	1268	3.8	3.8
December	42	1824	1824	2.5	2.5
Total	810	30395	34345	4.2	"

* Apparent annual failures per 10,000 Enterprises.

For seasonal variation.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review" from March of 1945 to February of 1946.

TABLE XXIII

THE FAILURE RECORD FOR 1945

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	18	25	34	48	27	22	19	16	21	16	17	7	270
$5,000 - $25,000	36	30	33	32	28	25	32	26	32	22	25	16	343
$25,000 - $100,000	18	8	11	10	13	10	13	11	9	13	17	13	141
$100,000 and over	8	3	7	10	8	4	8	3	2	5	1	6	51

* Number of failures.

Source: "Dun's Review," Dun and Bradstreet, Inc. from March of 1945 to February of 1946.

TABLE XXIV

FAILURES BY DIVISIONS OF INDUSTRY - 1945*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	80	66	85	90	72	61	72	56	64	62	60	42	810
Mining & Mfg.	34	17	26	26	26	19	19	21	24	24	21	23	280
Wholesale Trade	2	4	7	6	6	4	5	5	2	8	10	2	61
Retail Trade	26	26	37	43	28	28	30	17	17	14	14	10	290
Construction	10	8	10	7	7	5	9	8	5	13	8	2	92
Commercial Service	8	11	5	8	5	5	9	5	16	3	7	5	87

*Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review", Dun and Bradstreet, Inc., from March of 1945 to February 1946.

CHAPTER XIII

I. BUSINESS FAILURES IN 1946

A. ANALYSIS OF FAILURES[1]

In December business failures rose to 141, the highest number in 28 months. The total for the year amounted to 1130. This marked an upturn from the record low of 810 established in 145. Thus, the long eight-year decline in failures had ended. The Failure Index, which indicates the rate of failure per 10,000 business enterprises, averaged 5.2 in 1946 compared with 4.2 in 1945 and 54.4 in 1941.

The aggregate liabilities involved in failures reached the largest volume in four years. Losses were twice as heavy as in either 1945 or 1944, totalling $70,349,000. In 1946 eight companies failed with liabilities over $1,000,000, more than in any year since 1941. Medium-size failures turned up from the record low levels established a year ago, although at a more moderate rate of increase. Only small failures with losses under $5,000 continued, for the fifth consecutive year, to decline, reaching another new low. The rate of decline had eased up in this size group in 1946.

In all industry and trade groups more firms failed than in 1945. The largest rises were recorded in the whole-

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[1] Dun's Review, Dun and Bradstreet, Inc., February 1947, pp. 32,34,36.

sale trade and manufacturing, with about 67 per cent more failures than in 1945. The smallest rise occurred in retail trade where business casualties were up only 5 per cent. For the first time in failure history, manufacturers outnumbered retailers in failures.

Only one individual business, machinery manufacturing, had over 100 concerns failing during 1946. Failures in this line were more numerous in 1946 than in any year since 1939. In only three other businesses did failures run over 50; lumber manufacturing, eating and drinking places, and building subcontracting. Very few lines had a smaller number of concerns going out of business in 1946 than in 1945.

More than 50 per cent of the year's total liabilities were concentrated in manufacturing. In two individual manufacturing lines, machinery and transportation equipment, liabilities were above $10,000,000. They were over $1,000,000 in all except three of the eleven manufacturing lines.

B. CAUSES OF FAILURES

In 1946, a transition had taken place from war to peace and it is a generally accepted rule that in good times or bad, failures are higher under free enterprise than under the controls of a war economy.

During 1946, there was a marked increase in

business population. The shrinkage of retail stores and services due to four years of war was made up in the first year of peace. Commercial enterprises listed in the Dun and Bradstreet <u>Reference Book</u> in 1946, reached an all-time high and continued to gain as retailers entered a wide variety of trades.[2]

Between December, 1944, and December, 1946, with veterans taking their places in civilian life and supplies of material and merchandise for civilian use gradually increasing, fully one million new enterprises were started. The net growth in the business population was 700,000 during this two-year period. These new, untrained businessmen who entered the field presented both a human and an economic problem. That they were responsible for many of the 1946 failures was shown by the fact that nearly two-fifths of all firms, which were liquidated or sold in the second quarter of 1946, did not prepare annual Profit and Loss Statements.[3]

Because of favorable economic conditions, business failures were low in the year under consideration. For those firms that did fail during 1946, the principal cause

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2 <u>Ibid</u>.

3 Ulmer, M. J., <u>Business Turn-over and Causes of Failure in 1946</u>, Domestic Commerce, U. S. Department of Commerce, May 1947, pp. 14-19.

to which failure was attributed by proprietors was a scarcity of merchandise and materials. Of secondary importance was the difficulty encountered in getting competent employees, a result of the low level of unemployment and the competition for labor engendered by the high level of business activity.

Other causes of substantial importance were:

1. Increase in labor costs.
2. Labor disputes.
3. Coal shortages.
4. Decline in exports.
5. Difficulty in securing customers.
6. Lack of capital.
7. Price uncertainties.
8. Rent increases.
9. Equipment and repair scarcity.
10. Continued inactivity in capital goods industries.

Scarcity of merchandise was an important factor in almost all industries, but was especially significant in the retail durable-goods lines and in construction.

War industries which were unable to convert to a peacetime product had to close because of "lack of customers." These concerns were considered "marginal."

The underlying causes of business failure were in operation as usual, playing a very important part in the number of casualties during 1946.

TABLE XXV

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1946**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars	Dun's Insolvency Index*	
				Unadjusted	Adjusted#
January	80	4372	5776	4.7	4.3
February	92	2983	2983	6.1	5.3
March	86	4421	4529	4.8	4.5
April	81	3785	3985	4.5	4.1
May	92	3656	3931	4.7	4.5
June	69	3006	3006	3.8	3.8
July	74	3434	3493	3.9	4.1
August	92	3799	3799	4.6	5.2
September	96	4877	4877	5.4	6.5
October	123	6400	6650	6.3	7.1
November	104	12511	16179	5.9	5.8
December	141	17105	17255	7.4	7.4
Total	1130	70349	76463	5.2	"

* Apparent annual failures per 10,000 enterprises.

\# For seasonal variation.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review," Dun and Bradstreet, Inc., from March of 1946 to February of 1947.

TABLE XXVI

THE FAILURE RECORD FOR 1946

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	23	29	17	55	26	24	20	15	22	20	20	21	263
$5,000 - $25,000	37	41	40	119	27	23	31	49	33	62	55	64	489
$25,000 - $100,000	15	16	17	71	30	15	14	16	31	30	13	36	252
$100,000 and over	5	6	12	32	9	7	9	12	10	11	16	20	126

* Number of failures.

Source: Dun's Review", Dun and Bradstreet, Inc. from March of 1946 to February of 1947.

TABLE XXVII

FAILURES BY DIVISIONS OF INDUSTRY - 1946*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	80	92	86	81	92	69	74	92	96	123	104	141	1130
Mining & Mfg.	35	29	41	34	41	25	36	37	32	60	38	58	466
Wholesale Trade	3	9	10	10	4	4	5	5	8	17	8	16	99
Retail Trade	22	27	17	25	26	24	17	26	28	21	36	35	304
Construction	8	14	10	7	8	13	9	12	17	14	9	18	139
Commercial Service	12	13	8	5	13	3	7	12	11	11	13	14	122

*Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review" Dun and Bradstreet, Inc., from March of 1946 to February of 1947.

CHAPTER XIV

I. BUSINESS FAILURES IN 1947

A. ANALYSIS OF FAILURES

During the first five months of 1947, commercial and industrial failures continued the steady upswing which began in December 1946. From June to the end of the year, monthly failure totals fluctuated mildly with a total increase of about 10% for the seven month period. The actual total number of failures for the year was 3,476, the highest for any year since 1942. There were about three times as many failures in 1947 as in the previous year. They were only one-fourth as numerous as in the immediate pre-war years and about one-eighth as numerous as in the late 1920's and early 1930's. A very sharp upward movement occurred in the failure rate with the index rising 175% above the 1946 figure. In other words the Failure Index for 1947 had a rate of about 14 failures for each 10,000 concerns in business. This compared with a rate of 5 per 10,000 concerns a year in 1946 and four in the record-low year 1945.

The total liabilities in 1947 amounted to $221,000,000, approximately three times the total for last year. They surpassed the liabilities of each year since 1938. One reason for the sharp post-war rise in liabilities was the unusually great increase in exceptionally large failures. Insolvent companies with liabilities of from

$100,000 to $1,000,000 in 1947 totaled 350, the highest number for this group since 1935. The failure record also included 23 businesses with liabilities of over $1,000,000 each. These figures combined represented an increase of 196% over a similar group in 1946. The greatest number of failures appeared once again in the medium-size group, while the smallest increase in failures occurred for the sixth consecutive year in the class with liabilities under $5,000. Failures of $25,000 and under, continued to account for 65% of the total insolvencies.

Sharp increases from the number of failures in 1946 took place in all trades, with both wholesale and retail failures about four times as numerous as those of a year ago. By comparison, there was a small increase from 1946 in construction and commercial service.

In the manufacturing group there were more machinery manufacturers failing than in any other line. Other appreciable increases were evident in food, textiles, lumber, and apparel. Retail failures were heaviest among eating and drinking places, food stores, apparel, and automotive products. There was a sharp increase over 1946 in failures of furnitures stores. Over half of the failures in the furniture line were concentrated in the electrical appliance and radio field. In commercial service, failures in the transportation field and repair service, principally

electrical, predominated. In construction, the sub-contracting group suffered most.

B. CAUSES OF FAILURES

The causes of business failure in 1947 resolved themselves dichotomously; those that precipitated the small failures and those that brought about an approximately equal number of large failures.

The small failures, those with liabilities under $25,000, were principally the result of the increasing number of firms in operation, the scarcity of materials, and the inexperience of owners. In 1947 there were more than 3,783,600 concerns, mostly small, doing business in the U. S. Thus, the risks and the expectations that a company, particularly a little one, might fail were much greater. The vast majority of the small insolvent firms were in their first year of operation. The owners had entered extremely crowded fields, generally retailing, while materials were still scarce. This, coupled with the fact that the new proprietors lacked experience and sufficient capital and were incompetent, caused the eventual elimination of the inefficient small companies.

The large insolvencies with liabilities of $25,000 and over, occurred mainly to firms that had been established in the war years. During wartime the newly organized businesses were profitable because of government contracts and

orders, ready markets for their products, and no competition. In the post-war years, however, there were no longed any government orders, supplies of raw materials grew scarce, costs increased and work stoppages were prevalent because of the temporary closing of bituminous coal mines. The short supply of several key basic materials, sheet steel in particular, was difficult to endure. These shortages retarded the production of many manufactured products at a time when order back logs for automobiles, railroad equipment, farm implements and certain types of industrial machinery, remained large. At the same time, skilled labor continued to be hard to find in many industrial areas. As a result of these various factors, companies were forced out of business. The vast majority of these failures were the "marginal" concerns which could not adjust themselves to the change-over from wartime to peacetime production.

TABLE XXVIII

INDUSTRIAL AND COMMERCIAL FAILURES FOR 1947**

	Number of Failures	Current Liabilities (thousands of dollars)	Total Liabilities (thousands of dollars)	Dun's Insolvency Index*	
				Unadjusted	Adjusted#
January	202	15193	15193	10.2	9.3
February	238	12976	12976	13.8	11.8
March	254	15251	15251	12.4	11.5
April	277	16080	16080	13.5	12.4
May	378	17326	17521	18.2	17.3
June	283	18982	19297	14.1	14.4
July	299	37137	37948	14.2	15.3
August	287	14903	14903	13.4	15.2
September	292	10034	10099	14.2	16.9
October	336	21322	22229	15.5	17.4
November	313	16345	16624	17.3	17.1
December	317	25499	25499	14.8	15.1
Total	3476	221048	223620	14.3	"

* Apparent annual failures per 10,000 enterprises.

\# For seasonal variation.

**Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review" Dun and Bradstreet, Inc., from March of 1947 to February of 1948.

TABLE XXIX

THE FAILURE RECORD FOR 1947

Number of failures by size of debt.	Jan. *	Feb. *	Mar. *	Apr. *	May *	June *	July *	Aug. *	Sept. *	Oct. *	Nov. *	Dec. *	Total *
Under $5,000	38	35	40	55	57	57	49	50	57	51	65	46	600
$5,000 - $25,000	95	108	115	119	180	133	138	143	148	170	143	169	1661
$25,000 - $100,000	36	65	68	71	101	72	71	69	67	73	73	76	842
$100,000 and over.	33	30	31	32	40	21	41	25	20	42	42	26	373

* Number of failures.

Source: "Dun's Review" Dun and Bradstreet, Inc.
from March of 1947 to February of 1948.

TABLE XXX

FAILURES BY DIVISIONS OF INDUSTRY - 1947*

	Jan.	Feb.	Mar.	Apr.	May	Juen	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total in U.S.	202	238	254	378	378	283	299	287	292	336	313	317	3476
Mining & Mfg.	67	92	108	155	155	95	107	99	101	98	124	112	1275
Wholesale Trade	27	34	24	51	51	36y	40	44	40	55	26	33	447
Retail Trade	76	70	88	119	119	108	105	102	103	129	115	123	1222
Construction	15	20	13	20	20	23	17	19	20	25	25	26	239
Commercial Service	17	22	21	33	33	21	30	23	28	29	23	23	293

*Series revised to include voluntary discontinuances with loss to creditors.

Source: "Dun's Review," Dun and Bradstreet, Inc. from March of 1947 to February of 1948.

CHAPTER XV

I. SUMMARY OF THE CAUSES OF BUSINESS FAILURE

The years 1938 through 1947 indicated that failures, whether in good times or bad, were higher under free enterprise than under the controls of a war economy. Two improtant types of business casualties were brought out in this period; those which suffered from excessive inventories and those which were impeded by a lack of goods. The first mentioned class of failures usually had the larger creditor list and was prevalent in the prewar, depression years. The other kind of discontinuance was typical during the war years.[1]

A study of this period showed that the smaller concern usually had the higher mortality. The average businessman with small resources probably lacked both the experience and the opportunities of the larger capitalist and tended to enter an overcrowded field in active competition both with many similar small concerns and with larger and better organized businesses supported by more capital.[2]

Year after year during the decade, failures moved conversely to general business conditions and were so sensitive to business changes that very little lag was apparent between an

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[1] Comparative Failure Trends: 1915-1923, 1938-1947, Dun and Bradstreet, Inc., 1946.

[2] Ibid.

upturn in business and a decline in failures, or a decline in business and an increase in failures.[3]

In the prewar years the environment of low business activity was, in the writer's opinion, the predominant characteristic. The psychological and political factors, stemming from the unsettled conditions in Europe, were apparently keeping industrial production down. No one seemed to know exactly what to do or how to plan for the future in regard to production schedules and purchasing. As a result entrepreneurs were hesitant to do much more than maintain a "middle of the road" business policy. They were waiting for some definite indication as to the final outcome of the hostile movements in Europe.

This atmosphere of unreliability seemed to affect investors and buyers, causing them to assume a conservative attitude. Management appeared to be suffering from a lack of confidence which was reflected in the lethargic business conditions.[4]

It was under these difficult circumstances that the number of new businesses increased. They not only chose a bad time to enter business, but started operating with only small amounts of capital. This was indicated

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[3] Ibid.

[4] Dun's Review, Dun and Bradstreet, Inc., March 1938, pp. 18,19.

by the increase in the number of very small concerns that failed, as shown in Tables 2,5, and 8.

The feeling of uncertainty on the part of business together with a surrounding influence of depressed business activity, apparently were the most prevalent "occasion" causes of business failures during the prewar period.

The changing national economy entered the war phase in August 1940. Business activity rapidly rose when the domestic program of defense went into operation and consumer buying and consumer income increased. As American industries adjusted themselves to wartime production, government war contracts became plentiful, ready markets for virtually all finished goods were available, and business in general increased. The result was that business failures reached unprecedented low levels as pointed out in Tables 19, 22, and 25.

However, there were business casualties even in this boom period. The presence of such things as rationing, priorities, labor shortages, scarcity of materials, rising operating costs, price ceilings, and voluminous government reports, were a necessary evil in wartime as far as business and industry were concerned. Companies that overcame these difficulties became very successful. On the other hand, concerns, like the small manufacturers for example, who could not conquer these obstacles and firms in non-essential industries producing and selling

articles mainly used by civilians, found themselves in a very unfortunate position, often resulting in failure. These organizations, because of their size or nature of their business, could not secure war orders. Consequently, they had no priorities with which to obtain much needed material for the production of goods.

It seemed to the author that if any one "immediate" cause were to be held accountable for the failures which occurred in the war period, it would be the shortages of material and labor.

The post-war phase actually began during 1944. At that time the economic advisers in this country proposed the curtailment of government orders because they feld the war would soon be over. In this same year, as consumers' goods industries began to really prosper as a result of the business boom, producers' goods industries experienced an opposite effect. The slow down in war orders caused the number of their failures for example in the iron and steel, machine tool, and transportation equipment industries, to suddenly increase, while failures in other industries continued to decline. The manufacturers of producers' goods, being in the stage of production furthest from the consumer, are always the first to feel the consequences of any reduction in demand.

In the following years, although business conditions were good, owners were still confronted with many diffi-

culties. Raw material and manpower shortages were still apparent, but were not as critical as they were during wartime. Small businesses found difficulty in meeting increased operating costs. Labor disputes in general and the coal strikes in particular, began to exert an increased influence upon American economy. Lastly, the complete elimination of war orders, because of the cessation of hostilities, brought about a down ward movement in industrial production. This was clearly brought out by Dun and Bradstreet's Index of Industrial Production for those post-war years in Dun's Review.

These hindrances probably caused only a small percentage of the total failures in the post-war period. The vast majority of insolvencies, it appeared to the author, resulted from "marginal" firms which were unable to convert to a peacetime product, and from businesses in their first year of operation. In the latter case, the owners seemed to be, generally speaking, insufficiently qualified to have entered that business.[5]

In conclusion it should be stated that the ever-present "underlying" or "fundamental" causes, as explained in Chapter 3 of this report, have been indirectly responsible for all of the failures in this period. Roy A.

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[5] Comparative Failure Trends: 1915-1923, 1938-1947, Dun and Bradstreet, Inc., 1946.

Foulke clarifies this point in the following statement:

> Business successes and failures are largely measures of managerial foresight or lack of foresight, ability or inability, hardworking or easy-going leadership.[6]

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[6] Roy A. Foulke, Behind the Scenes of Business, Dun and Bradstreet, Inc., Revised Edition 1937, p. 166.

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